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Trade deficit widens in Q1 due to higher prices

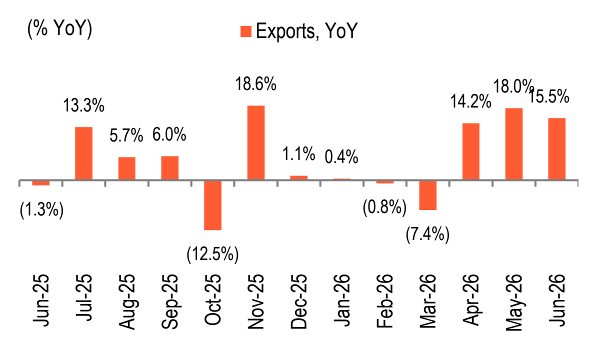
India's trade deficit widened to US$ 30.4bn in Jun'26 as imports increased. Export growth maintained momentum as well. In Q1 FY27, while merchandise exports performed well, imports also accelerated, reflecting higher commodity prices, especially oil prices. Export growth in Q1 has been broad-based with engineering, gems and jewellery and electronic exports continuing to outperform. On imports side, traction is also seen in non-oil-non-gold imports, such as electronics, machinery, fertilizers and pulses. Going ahead, with continued uncertainty on the global front, the CAD will remain under pressure. However, due to the recent measures by the RBI and government, the impact on the BoP position would not be significant. Overall, we estimate CAD at 1.8-2% of GDP in FY27. We remain watchful of the evolving war situation in the Middle East.

India's trade in Jun'26

India's exports rose by 15.5% in Jun'26, compared with a decline of 1.3% in the same period last year. While impressive, this was marginally lower than a growth of 18% noted in May'26. Within exports, oil exports decelerated to 9.2% in Jun'26 after increasing by 55.1% in May'26. On the other hand, support was provided by non-oil exports which increased by 16.5% in Jun'26, following an 11.9% rise noted in May'26. On the imports side, there was a sharp acceleration in overall imports. In fact, growth in imports accelerated to a 42-month high of 31% in Jun'26, after increasing by 20.6% in May'26. While both oil and gold imports moderated sequentially reflecting a correction in global prices, non-oil-non-gold imports increased at a much faster pace of 28.9% in Jun'26 (46-month high), compared with 8.6% in May'26.

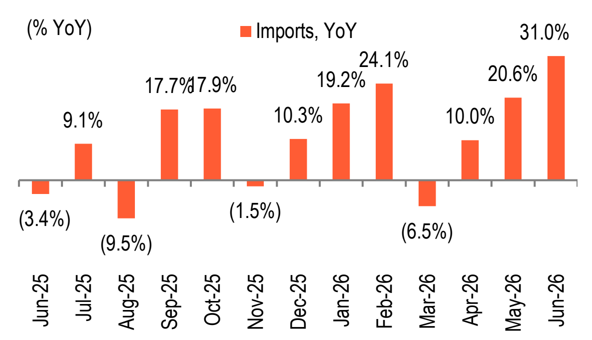
India's merchandise trade deficit expanded to a 5-month high of US$ 30.4bn in Jun'26, compared with US$ 28.2bn in May'26, as imports rose at a much faster pace than exports.

Figure 1: Exports growth maintained momentum



Source: CEIC, Bank of Baroda Research

Figure 2: Import growth surges in Jun'26



Source: CEIC, Bank of Baroda Research

India’s trade in Q1 FY27

India’s merchandise exports have witnessed a sharp turnaround in Q1 FY27, rising by 15.9% compared with a decline of 2.2% in the same period last year. The stellar export performance can be attributed partly to base effect. At the same time, higher oil prices have also helped. In fact, India’s oil exports increased by 35.2% in Q1 FY27, after declining by 29.9% in Q1 FY26. However, there is evidence of a much broad-based recovery in exports as non-oil exports too have shown an improvement. In Q1 FY27, non-oil exports have increased by 12.4% compared with an increase of 5.3% witnessed in Q1 FY26. Importantly, within non-oil exports, performance of traditional export intensive sectors has noted an improvement in Q1 FY27. Exports of engineering goods has increased by 18.1% in Q1 FY27, compared with a meagre growth of 3.7% last year. Similarly, gems and jewellery exports too have witnessed a turnaround to increase by 9% this year, after a decline of 8.3% in Q1 last year. A similar trend is also visible in chemicals exports which increased by 13.2% in Q1 FY27, after declining by 1.7% in Q1 FY26. Exports of other items, such as drugs and pharmaceuticals as well as agricultural products too have done well. Electronics exports too have continued to increase in double digits, building up on the sustained growth momentum. On the other hand, exports of textiles have continued to remain subdued due to increasing competition.

Table 1: Commodity wise export performance in Q1 FY27

Items	Share in exports, %	FYTD26, US$ bn	FYTD27, US$ bn	FYTD27, % YoY
Engineering goods	26.4	28.9	34.1	18.1
Oil – refinery products	17.7	17.0	23.0	35.2
Electronic goods	11.8	12.4	15.2	22.6
Drugs and pharmaceuticals	6.3	7.6	8.1	6.8
Chemicals	6.1	7.0	7.9	13.1
Gems and jewellery	5.6	6.7	7.3	9.0

Source: CEIC, Bank of Baroda Research

India’s imports increased at a much faster pace of 19.9% in Q1 FY27, compared with an increase of 4.7% in the same period last year. Within imports, gold imports registered a growth rate of 47.1% this year, compared with a decline of 10.3% in the same period last year. This can be attributed to higher gold prices which were higher by 37.1% on an average. Along similar lines, oil imports increased by 23.1% in Q1 FY27 compared with a decline of 4.4% in Q1 FY26. In the same period, oil prices (Indian basket) rose by 50.5%. Non-oil-non-gold imports have continued to register a strong growth, increasing by 17% in Q1 FY26, following a 10.1% increase in the same period last year. Commodity wise, broad-based acceleration was seen across categories. In particular, imports of electronics and machinery increased sharply. Fertilizer imports too accelerated steeply by 82.9% in Q1 FY27 due to higher global prices and limited availability. Imports of agricultural products, primarily pulses and vegetable oils too picked up notably in Q1 FY27. On the other hand, imports of pearls and precious metals, silver and iron and steel declined.

Table 2: Commodity wise import performance in Q1 FY27

Items	Share in imports	FYTD26, US$ bn	FYTD27, US$ bn	FYTD27, % YoY
Oil	28.0	49.2	60.6	23.1
Electronic Goods	17.8	26.8	38.5	43.8
Machinery	7.7	14.1	16.7	18.4
Gold	5.1	7.5	11.0	47.1
Coal	3.9	7.7	8.5	9.2

Transport equipment	3.9	7.9	8.4	6.5
Organic and inorganic chemicals	3.8	7.2	8.2	12.9
Plastic and rubber articles	3.0	5.8	6.5	12.7
Vegetable oils	2.4	4.3	5.2	21.0
Iron and steel	2.3	5.3	5.1	-3.3
Pearls and Precious Metals	1.8	4.7	3.8	-19.7

Source: CEIC, Bank of Baroda Research

Outlook for FY27

India's merchandise trade deficit expanded to US$ 86.8bn in Q1 FY27 versus US$ 68.8bn in Q1 FY26. The increase was primarily driven by higher gold and oil imports. Going ahead, pressure on India's external position is expected amidst continued uncertainty over US-Iran war. While oil prices had eased in Jun'26 due to the announcement of a peace deal, recent developments have once again started pushing up oil prices. This can further inflate the import bill. Other global commodity prices are also likely to stay elevated in case the war continues to linger on. We do not expect the war to extend beyond Q2 FY27, after which there could be a return towards normalcy.

For exports as well, continued uncertainty over war and disruptions in global supply chains will also come in the way of a meaningful recovery in exports. Elevated prices will also impact global growth and hence export prospects. Support for merchandise exports would come from the government's focus on free trade agreements. Overall, merchandise trade deficit is likely to be higher than last year which will put pressure on CAD. At the same time, remittances from Gulf countries could also be impacted due to war related disruptions. Overall, we expect the CAD at 1.8-2.0% of GDP in FY27. Recent measures by the government and RBI to shore up dollar inflows should help cushion the impact on overall BoP.

Table 1: India balance of payments snapshot

(US$ bn)	Q4FY25	Q4FY26	FY25	FY26
Current account	**13.6**	**7.0**	**-23.1**	**-25.4**
CA/GDP (%)	**1.4**	**0.7**	**-0.6**	**-0.6**
Trade balance	-59.3	-83.4	-286.9	-337.3
- Merchandise exports	116.4	113.3	442.1	446.1
- Merchandise imports	175.8	196.6	729	783.4
Net Services	53.3	60.4	188.8	216.6
Transfers	31.5	41.2	123.4	143.5
Other invisibles	-11.9	-11.1	-48.3	-48.2
Capital account	**-5.6**	**-1.1**	**16.7**	**2.0**
% of GDP	**-0.6**	**-0.1**	**2.3**	**0.3**
Foreign investments	-5.5	-7.8	4.5	-9.4
- FDI	0.4	4.2	1.0	6.9
- FII	-5.9	-12	3.6	-16.4
Banking capital	-9.0	5.4	-9.8	6.4
Short-term credit	-4.4	-3.4	7.2	13.7
ECBs	8.0	2.5	15.9	11.1

External assistance	2.1	1.6	6.3	2.6
Other capital account items	3.2	0.7	-7.4	-22.5
E&O	0.8	1.3	1.4	-0.1
Overall balance	**8.8**	**7.2**	**-5.0**	**-23.6**

Source: CEIC, Bank of Baroda Research

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